



AMCHAM
KENYA

POLICY ANALYSIS REPORT

MANUFACTURING SECTOR

JUNE • 2021

PROSPER KENYA INITIATIVE



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EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Historically, the manufacturing sector's contribution to the economy in Kenya has stagnated at around 10% of the gross domestic product (GDP). Currently, the sector's contribution to GDP stands at about 7.5% and is therefore falling short of the goal outlined in the Big 4 Agenda, which seeks to increase the GDP contribution of the sector to 15% by 2022.

In the short run, the sector's contribution to the economy is expected to stagnate or continue to decline, given the lack of funding, inadequate policy changes/development, and the dominance of other industries.


Under the Manufacturing Pillar of the Government of Kenya's Big 4 Agenda, the textile, apparel and cotton sub-sectors have been identified as a key priority, with the potential for high growth and economic impact. By 2022, cumulative investments in the subsector are targeted to increase to USD 2 billion, with 500,000 new cotton jobs and 100,000 new apparel jobs being created.

This is expected to be achieved, in part, through policy and incentive reviews, the construction of 5 million square feet of industrial sheds, the planting of 200,000 hectares of cotton, and the training of

50,000 youth and women in the sector. Another priority sub-sector is pharmaceutical manufacturing, particularly given the opportunities presented by the COVID-19 pandemic, among other diseases of significant concern in the region.

Notably, trade barriers will make the country a hub for pharmaceutical manufacturing, strengthening Kenya's position in the region.

The current government seems committed to improving the business environment, and the country has steadily risen on the World Bank's Ease of Doing Business Index. However, a standing concern in the country is that imprudent policy decisions are made for political gain, rather than for the sector's commercial and economic interest.



Different taxation regimes between Export Processing Zone (EPZ) and non-EPZ producers have caused a significant rift in manufacturing costs between those producing for domestic and international markets. This has been exacerbated by the government's move to sell EPZ-produced wares on local markets. Non-EPZ manufacturers are not able to compete with the cheaper products coming from EPZ manufacturers.

With the need to develop an export-oriented economy, it is important to enhance the export market development programs in place, in order to ensure that local manufacturers increase their export output. Tariff and non-tariff barriers in target markets remain a major hindrance to export market development. Internally, fiscal and monetary interventions are needed to drive export market development and incentivise the growth of an export economy.

The increased focus on manufacturing from both public and private sectors in Kenya creates an environment of opportunity for US companies in the value chain.

Top prospect solutions include: supply chain management and integration; robotics; energy and energy management; data and analytics; and plant and equipment management, among others. These solutions will increase efficiency by creating data-managed operations, which offer better value for consumers and will serve as a catalyst for further growth for the industry.

1.1 SECTOR RISKS



POLITICAL

Incidents of noncompliance/ lack of alignment among EAC members.

Corruption risks. Manufacturing facilities require multiple permits and approvals, which can be leveraged by unscrupulous actors.

Land tenure policy Land is a politically sensitive issue and its acquisition can be a lengthy and sometimes contentious process.



ECONOMIC

Depreciating/unstable nature of the shilling.

COVID-19 pandemic.

Reduced consumer demand/disposable income Lack of technical skills to fully support the growth of the manufacturing sector.



POLICY/ REGULATORY

The incremental rise in excise tax, particularly as the government struggles to generate revenue.

Excessive/overlapping policies/strategies.

Inconsistent tax regime and enforcement.



COMMERCIAL

Cheaper foreign manufacturers, particularly given the recent trade/movement liberalisation efforts.

Politically connected and/or effective competitors.



LEGAL

Increasingly aggressive efforts by regulatory authorities to collect (delayed) taxes given revenue shortfalls.

¹ <https://www.trade.gov/market-intelligence/kenya-advanced-manufacturing>

1.2 SECTOR OPPORTUNITIES



POLITICAL

Engage with policymakers regarding new/realistic rules of engagement with RECs, particularly given AfCFTA efforts.

The political will to revive and stimulate manufacturing makes government open to new investors.



ECONOMIC

Engage with policymakers in the current transition towards a sustainable and circular economy.

U.S.-Kenya FTA would open significant opportunities both for import to Kenya/EAC and export from the region.



POLICY/ REGULATORY

Align with government's development policy agenda (Big 4 - improved health, local manufacturing, boosting agriculture and sustainable housing).

Influence calls for financing, particularly for MSMEs, in order to take advantage of AfCFTA.

Investors operating plastic recycling plants are also set to enjoy a reduced corporate tax rate of 15% for the first five years.

Validation of the outstanding VAT refunds by manufacturing companies-Government has set timelines for VAT refunds to issue 60 days after lodging the claim, thus providing manufacturing companies with working capital.



BUSINESS

Push to expand pharmaceutical manufacturing in light of COVID-19 supply chain issues.

special economic zones linked to transport and energy infrastructure.

Manufacturers to take advantage of new technologies that are cheaper and more efficient and thereby establish truly efficient and productive manufacturing plants.

Revival of RIVATEX, one of the oldest textiles company based in Eldoret.

Development of textile and leather industrial parks, Naivasha Industrial Park and Cotton Development subsidy; KES 1.7 billion to support the growth of SMEs; and KES 1.0 billion to modernise facilities at the Kenya Industrial Research and Development Institute (KIRDI).



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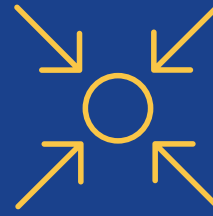
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SECTOR POLITICAL ECONOMY



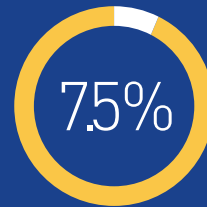
Considering both its job creation opportunities and its contributions to national output and exports, manufacturing is a key sector for Kenya's economic development. The importance of this sector has been highlighted by its inclusion in the Big 4 Agenda, in which key targets and specific goals have been set to steer industrial growth.



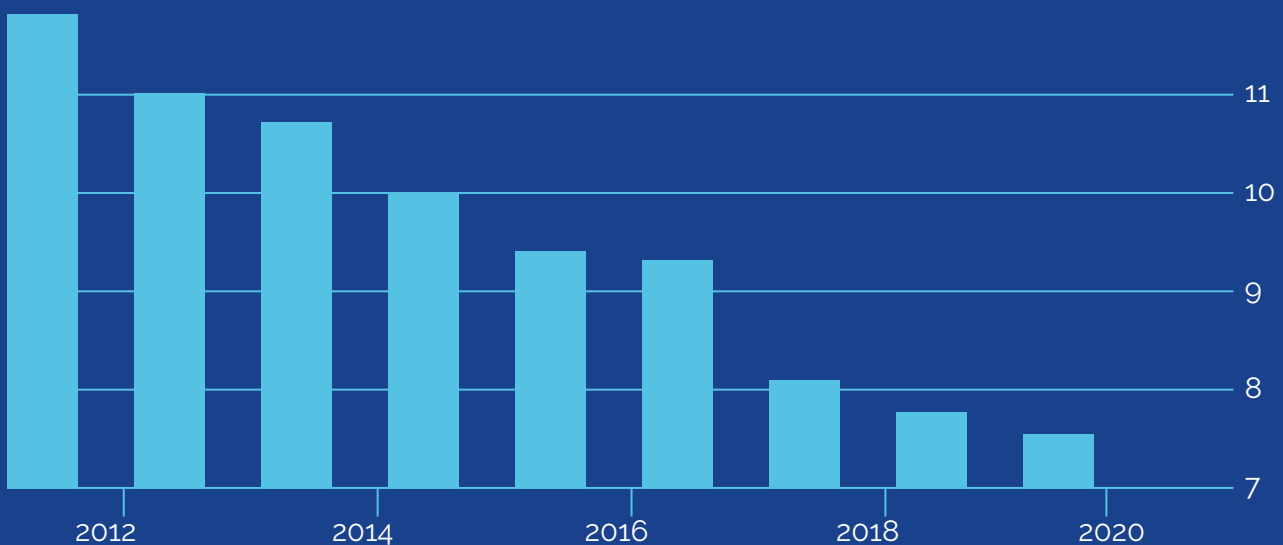
These targets include the development of Special Economic Zones (SEZs), niche products, and industrial parks and clusters. There are a wide range of direct and joint-investment opportunities in this sector, including agro-processing; garments; the assembly of automotive components and electronics; plastics; paper; chemicals; pharmaceuticals; and metals and engineering products for domestic and export markets.



Historically, the manufacturing sector's contribution to the economy in Kenya has stagnated at around 10% of the GDP, and was as low as 8.4% in 2017.



Currently, the sector's contribution to GDP stands at about 7.5% and is therefore falling short of the goal outlined in the Big 4 Agenda, which seeks to increase the GDP contribution of the sector to 15% by 2022.





The sector has faced significant challenges in the last 15 years. This has seen its contribution to GDP drop significantly, giving rise to fears of premature deindustrialisation. The structure of the sector has seen little change over the years, despite targeted policy interventions attempting to adjust this.



The COVID-19 pandemic has had a negative effect on the sector, although significant progress, particularly with regard to pharmaceutical manufacturing and other efforts supported by the Big 4 Agenda, is expected to lead to improvements.



Kenya, like many other developing countries, has not managed to develop a robust manufacturing sector. Growth has been primarily driven by the agriculture and services sectors. The country has thus experienced premature deindustrialisation, as evidenced by the decline in the manufacturing sector's GDP contribution, which was at 8.4% in 2017, down from 9.2% in 2016.



Deindustrialisation in the country has seen the services sector contribute a rising share of GDP, fuelling debate as to whether services can replace the manufacturing sector as an engine of economic growth. However, there has since been an improvement in the sector.

3.7%

Expansion in the manufacturing output in the second quarter of 2018 indicated by the Kenya National Bureau of Statistics (KNBS), in comparison to the same period in 2017 to

175.7

million (USD 1.7 million).

0.8%

Increase in the formal employment sector in 2017 to 303,300 people representing

11.4%

of total jobs.

2.9%

Estimated expansion in the sector in the first quarter of 2020 compared to a growth of

3.5%

in the same quarter of 2019.

4.6%

Increase mainly supported by the manufacture of non-food products compared to a growth of

3.3%

in the same quarter of 2019.

3.1 POLITICAL LANDSCAPE

The Kenyan political economy is characterised by high levels of competition playing out in an increasingly constrictive fiscal space. Both of these aspects preceded the onset of the COVID-19 pandemic and continue to play a central role in the government's decision-making. Kenya is a devolved presidential republic, consisting of 47 county governments with their executive and legislative organs.

The country has a bicameral legislature consisting of a National Assembly and a Senate. The introduction of a devolved governance system in 2010 was significant in tackling political patronage, which has historically been (and continues to be) a defining feature of Kenya's political dynamic.

Kenya holds general elections every five years, with its pre- and post-electoral periods often characterised by mounting inter-communal tensions and economic disruption. The last general election was held in August 2017, with veteran opposition leader Raila Odinga running against President Uhuru Kenyatta in a heavily contested race that saw the Supreme Court invalidate the results and call for a historical rerun of the election in October 2017.

A central driver behind the current high levels of political tension is the latest project to reform the constitution and structures of the state – via the Building Bridges Initiative (BBI) and consequent 2020 Constitution Amendment Bill. In May 2021, the High Court rendered the constitutional amendment drive "irregular, illegal and unconstitutional."

The government has since filed an appeal and hearings related to the "BBI" bill will commence in late June 2021. The outcomes and current political climate occasioned by BBI will have a significant impact on the country's stability and security ahead of the 2022 general election.

3.2 SECTOR POLITICAL LANDSCAPE

Across the political spectrum, manufacturing is recognised as a key driver of job creation and economic growth. However, the decline of Kenya's manufacturing sector, particularly in agroprocessing (cotton, pyrethrum, sisal, sugar, paper) has caused both political controversy and protectionist policy measures. The current government seems committed to improving the business environment. Kenya climbed up 47 places on the World Bank's Ease of Doing Business Index, standing at 108 in 2016, and at 61 by 2019. By 2020, Kenya was ranked 56 of 190 countries globally, although the county's ranking did fall from 3rd to 4th amongst African countries, behind Mauritius, Rwanda and Morocco.

However, a standing concern in the country is that imprudent policy decisions are made for political gain, rather than for the sector's commercial and economic interest. This has been demonstrated by situations such as the ongoing Mumias Sugar controversy. Furthermore, political uncertainty discourages investment in the country, and negatively affects the manufacturing sector by making it difficult for the government to address concerns and issues consistently. Political dynamics also lead to an inconsistent focus on manufacturing – during campaign season, government and opposition parties are more willing to engage the manufacturing sector and make promises.

THE BIG 4 AGENDA



FOOD
SECURITY



UNIVERSAL
HEALTH



AFFORDABLE
HOUSING



MANUFACTURING
SECTOR

It aims to deliver results by the end of Kenyatta's second mandate in 2022. These include the construction of half a million affordable housing units; enhancement of food and nutrition security; universal health coverage; and effecting structural changes which increase the share of manufacturing, industrial and exporting sectors in domestic and regional markets.

3.3 KEY STAKEHOLDERS AND INSTITUTIONS



Betty Maina | CS, Industry

Betty Maina is the CS at the Ministry of Industry, Trade and Enterprise Development. She previously served as the PS at the Ministry of Environment and Forestry, State Department for Industrialisation, and the State Department of East African Affairs. She also served as the CEO of the Kenya Association of Manufacturers for 11 years (2004- 2015).

Maina has extensive international networks in both the public and private sectors and is the lead negotiator for the potential bilateral trade agreement between Kenya and the US. She is keen on promoting private sector-friendly policies and enterprise development in the country.



Amb. Johnson Weru | PS, State Department for Trade and Enterprise Development

An alumnus of Harvard University's Kennedy School of Government, the University of Nairobi and the University of Leeds. He is a career diplomat and public servant with over twenty-eight years' experience working in government and international development agencies in Africa and Europe. He is currently pursuing a doctorate in International Trade from Brussels University, Belgium.

Amb. Weru enjoyed a distinguished and lengthy service at the Ministry of Foreign Affairs Headquarters, where he served as Director for Economic Affairs and External Trade. His main responsibilities included coordinating and setting policy direction for both bilateral and multilateral trade and economic relations between Kenya and the rest of the world, including Africa, the Caribbean and the Pacific. Amb. Weru has wide experience in international finance, international trade negotiations, and public sector management and restructuring. He has previously held advisory/consultant positions with the World Bank and United Nations Development Programme. His recent assignments include participating in the negotiations surrounding the ongoing ACP-EU post Cotonou agreement, as well as those which led to the African Continental Free Trade Area (AfCFTA) Agreement.



Amb. Pete Kaberia | PS, State Department Industrialisation

Peter Kaberia is the PS, State Department for Industrialisation under the Ministry of Industry, Trade and Enterprise Development, having been appointed in February 2021.

Kaberia had previously served as PS at the State Department for Mining and Petroleum, from January 2020 to February 2021; at the State Department of Sports Development, from April 2017 to January 2020; and PS for Defence, from 2016 to April 2017.

Ambassador Kaberia is a career diplomat, having served in countries including Brazil, Argentina, Chile, Colombia and Venezuela.

Kaberia is also the founder of the US-based Democracy and Governance Program, which has trained over 500 African leaders since 1994, including cabinet ministers, members of parliament, and government and civil society leaders across the continent. In 2011, he received the prestigious founder's award for his work on this program.



Adan Haji Ali | Chair, National Assembly Committee on Trade, Industry and Cooperatives

Adan Haji Ali has served as the Member of Parliament for Mandera South constituency under President Kenyatta's Jubilee Party since August 2017, and began his tenure as the chair of the National Assembly Committee on Trade, Industry and Cooperatives in 2020.

Ali previously served as the chair of the National Assembly Committee on Agriculture, Livestock and Cooperatives from 2017 to 2020, and served the County Government of Kwale from 2013-2017 as an advocate for tourism investment and ICT.



Charity Ngilu | Council of Governors Committee on Trade, Industry and Investment

Charity Ngilu has served as the second governor elected for Kitui County since August 2017, one of three women to become Kenya's first governors. She also serves as the chair of the Council of Governors Committee on Trade, Industry and Investment. Ngilu previously served as CS for Land, Housing and other Urban Development from May 2013 to March 2015, and as Minister of Water and Irrigation from 2008 to 2013. She had previously held several other positions in government, including Minister of Health and Member of Parliament for Kitui.



Kenya Revenue Authority (KRA)

KRA is responsible for collecting revenue on behalf of the government of Kenya and has a customs services department. This government body currently does not have the capacity to enforce tax compliance, particularly with regard to informal industry and manufacturing.



Export Processing Zone Authority (EPZA)

The EPZA is responsible for attracting and retaining export-oriented investments as well as trade and issues licences for companies directly involved in export-oriented business activities in manufacturing or processing.



Kenya Bureau of Standards (KEBS)

KEBS has a mandate to develop and enforce higher standards of industrial and manufactured products. KEBS' approval of a product increases its credibility. However, Kenyans still purchase products from the informal sector without the KEBS seal.

3.4 COMMERCIAL LANDSCAPE

FORMAL SECTOR

The formal sector employs a significant amount of labour in the manufacturing sector, particularly in the textiles, food and beverages, pharmaceuticals, and plastics and rubber sub-sectors. A few large formal enterprises, together with small and medium-sized enterprises (SMEs), play an important role in manufacturing, and, crucially, enjoy the benefits of membership in organisations such as KAM. The formal sector is also more regulated, streamlined and technologically developed, and thus has a better chance of benefiting from government support and resources. In formal manufacturing, sectors most often identified as the weakest were linked to complex manufacturing, such as vehicle assembly, electronics, and other technology-related manufacturing.

INFORMAL SECTOR

As of 2019, the informal manufacturing sector contributed to about 3 million jobs in the country, with the furniture-making and metal works sub-sectors considered the strongest. The former was thought to be strong because of the availability of raw materials. The strength of metal works was linked to the manufacture of farming-related machinery in rural areas and the growth in construction in the country. The informal sector primarily consists of enterprises that are not registered formally, do not have a business licence or VAT number, (often) do not have a Personal Identification Number (PIN) with KRA – and yet are trading, conducting business and contributing to the economy.

The first strength of informal manufacturing is its job creation ability. The sector creates jobs cheaply for large numbers of individuals. Formal manufacturing jobs often require higher levels of education and educational qualifications, which bars the entry of millions of Kenyans to the formal sector. Furthermore, the informal sector provides goods and services at a cheaper price. There is an intersection between the informal economy and affordability. This may be because informal economy players do not have to meet the expenses linked to formal activity, such as tax compliance; paying the minimum wage; employee welfare laws and regulations; and statutory payments, among others. As a result, informal manufacturers can sell goods and services more cheaply to consumers.

This benefits low-income groups and is important in a country where poverty levels remain high. In the World Bank Survey on Informal Enterprises conducted in 2016, firms were provided with a list of eight obstacles to running their business and asked to choose the most difficult. The obstacles included access to finance; access to land; corruption, power supply or electricity; crime; water supply; access to technology; and inadequately educated workers. Such obstacles make it difficult for informal businesses to scale.

3.4.1 INVESTOR AND TRADE LANDSCAPE

REGIONAL

In terms of regional comparison, with other East African countries, Kenya has the largest and most sophisticated manufacturing sector. However, in terms of growth trends, other countries in East Africa are progressing much faster. The manufacturing sector in Kenya is growing far slower than those in Ethiopia, Rwanda, Tanzania and Uganda. If this trend continues, other East African countries will begin to dominate manufacturing in the region.

Further, governments in East Africa seem to be focusing on building manufacturing through the creation of industrial parks (Ethiopia), and on making land available for manufacturing, particularly the labour-intensive kind. Uganda and Tanzania are also determinedly positioning themselves as investment destinations for manufacturing in the region.

The good news, from a regional perspective, is that the East African Community (EAC) is nominating itself as the next global manufacturing destination. Such regional initiatives can be leveraged by the manufacturing sector in Kenya, catalysing its growth. There is clearly room for growth, evidenced by the fact that, according to the AfDB2, the combined manufacturing sector in the seven countries in Eastern Africa is only about one-third the size of the manufacturing sector in Vietnam, which has a population one-third the size of the seven countries combined.

In terms of regional access, Kenya is part of such regional trading blocs as the EAC and COMESA, and will be a part of the tripartite trade zone of the Africa Continental Free Trade Area when this materialises. However, certain barriers make accessing such markets difficult. In the EAC, several dynamics are muting Kenya's regional exports.

The World Bank Kenya notes that the weak growth in exports within the EAC has coincided with the ascendance of the fully-fledged EAC customs union, which has terminated preferential access to goods produced under various export-promotion schemes. Kenya's manufacturing sector has long had an advantage with regard to accessing EAC countries. However, as these countries overcome challenges in their own manufacturing sectors, Kenyan products will face stiff competition from products produced domestically in these countries.

The sector has already seen a decrease in the volume of manufactured goods exported to Uganda and Tanzania. This dynamic is also partly influenced by the introduction into regional markets of cheap imports from China and India. Kenyan manufacturers routinely face non-tariff barriers (NTBs), such as lengthy clearance times at borders and the use of the Rules of Origin specification to prevent Kenyan goods from entering EAC markets. Thus, the lived reality of the free movement of goods in the EAC and even COMESA is lacklustre.

INTERNATIONAL MARKETS

In terms of international market access, Kenya is party to such preferential market access agreements such as The African Growth and Opportunity Act (AGOA) and Economic Partnership Agreements (EPAs) with the EU. These expand the market for manufactured products beyond Kenya's borders. Organisations such as KAM played an important role in the renewal of AGOA to 2025 for Kenya, as well as in EPAs with the EU. According to the World Bank, Kenya's trade with the US now exceeds its trade with the UK, and is largely driven by preferential access through AGOA.

However, Kenya is still exporting far less than it could to the US with regard to the range and volume of manufactured goods. While some companies, especially those in textiles and apparel, are making use of AGOA, others, particularly SMEs, struggle with access issues. This is due to low levels of awareness, particularly among smaller firms, of preferential trade agreements and how to access such opportunities. Additionally, it is difficult to qualify for access to AGOA markets, given the complexity in product qualification, product entry requirements, and the problem of obtaining AGOA visas.

Finally, Export Processing Zone (EPZ) firms are targeted with government incentives to facilitate access to export markets – yet many firms exist outside the EPZs, and would indeed benefit from tax relief and other incentive schemes to boost their ability to access export markets.

² AfDB (African Development Bank) (2014) Eastern Africa's manufacturing sector: Promoting technology, innovation, productivity and linkages.

TRADING PARTNER	COMMODITY
Turkey	Imports: Electronics, chemicals, machinery Exports: Tea, horticulture, tourism
Uganda	Imports: Maize Exports: Edible oils, cement, steel, paper, medicine
USA	Imports: Machinery, boilers, plastics, electronic equipment Exports: Coffee, titanium ores, textiles
Netherlands	Imports: Services, chemicals, machinery, transport equipment, engines Exports: horticultural products, flowers, tobacco, raw materials
China	Imports: Leather, rubber, machinery, transport equipment, chemicals Exports: Hides, skins, coffee, tea, titanium ores, plastics
India	Imports: Plastics, paper and paper products, vehicles (non-railway) Exports: Inorganic chemicals, precious metals, pharmaceutical products
UK	Imports: Motor vehicles, printed materials, machinery, chemicals Exports: Tea, coffee, horticultural products



3.4.2 KEY INDUSTRIES IN THE MANUFACTURING SECTOR

TEXTILE AND APPAREL

This sector is one of the most labour-intensive and can play an important role in alleviating unemployment, especially among the youth, with EPZ-based manufacturers employing 52,000 people. The local sector directly employs about 21,000 people in the formally, and over 30,000 informally. The two sub-sectors (local and the EPZ's) export cumulatively employ over 200,000.



APPARELS

The total annual turnover is estimated to be

KES 38B

(approx. USD 350 million)



TEXTILE

The total annual turnover is estimated to be

KES 24B

(approx. USD 221 million)



TEXTILE YARN (EXPORT)

In 2017, 1,921 tonnes were exported, valued at

KES 859M

(approx. USD 7.9 million)



TEXTILE FIBRES (IMPORT)

Imports in 2017 weighed 20,125 tonnes and were valued at

KES 5.3B

(approx. USD 49 million)



SECOND-HAND CLOTHES

Also, second-hand clothes total 135,868 tonnes, valued at

KES 13B

(approx. USD 120 million)



TEXTILE YARN (IMPORT)

Textile yarn was imported in the quantity of 19,696 tonnes, valued at

KES 3.8B

(approx. USD 35 million)



ILLICIT TRADE

In the local market is about

KES 48B

(approx. USD 443 million)



GOVERNMENT LOSSES

Consequently loses is about

KES 23.1B

(approx. USD 213 million)

Approximately 2000 Kenyan tariff line items, most notably textiles and apparel, enjoy duty-free entry into the US market thanks to The African Growth and Opportunity Act (AGOA) signed into law by President Clinton in 2000.

Kenya's total exports to America under the AGOA hit KES 67 billion in 2019, a marginal increase of 3.7% from the KES 64 billion recorded in the previous year. In 2020, Kenya was the top apparel exporter to the US, exporting USD 319.82 million worth of shipment. This, however, was a drop of 18.21% on a Y-o-Y basis, with the pandemic a likely contributing factor.



FOOD AND BEVERAGE

The food and beverages sector have seven sub-sectors: alcoholic beverages and spirits; bakers and millers; cocoa, chocolate and sugar confectionery; dairy products; juices, water and carbonated soft drinks; slaughtering, preparation and preservation of meat; and tobacco and edible oils. Food processing enterprises in Kenya derive most of their raw materials directly from agricultural outputs. An increase or a decrease in both quantity and quality of agricultural outputs would therefore have significant implications for the sector. Players in this industry operate across the country and at various scales, with the majority operating as informal businesses.



The manufacture of food, beverages and tobacco is estimated to have contributed to about 3.5% of the GDP in 2017. Exports from the food and beverages sector were valued at

KES 254,686M
(approx. USD 2.35 billion)



The food-processing sector can therefore be a key driver of economic growth, as growth in the sector will have a direct and significant impact on the overall economy. The amount spent on imports of food and beverages was

KES 245B
(approx. USD 2.2 billion)



EDIBLE OILS

The edible oil refiners in Kenya engage in the production of cooking oils, fats, edible oil, copra oil and corn oil, among others. Some oil refiners participate in the growing of vegetable oil crops by contracting and supporting small scale farmers to use better farming methods, and have further partnered with various agencies to help smallholder farmers increase vegetable oil production.

6.5%

Increase in the manufacture of animal and vegetable fats and oils in Kenya in 2015.

12.2%

Increase in the amount of processed vegetable oils.

12.2%

Marginal growth in the amount of vegetable fats

1,307,000 MT/year

The installed capacity of the edible oil sub-sector in Kenya.

755,000 MT/year

The production capacity of the edible oil sub-sector in Kenya.

USD 180M

The total investment as of December 2015.

USD 25M/yr

The estimated total import value for the sub-sector.

There has been a rising demand for vegetable oils compared to vegetable fats over the years, mainly due to health awareness and concerns.

PAPER AND BOARD

In terms of employment, the industry relies heavily on skilled and experienced personnel. Out of over **20,000 employees** working within the sector in 2010, about **8%** were professionals and other top management. **81%** employees were in the skilled level category, while unskilled workers constituted about **13%** of total employment in the sub-sector.

The sector has large informal establishments in the supply of stationery printing and publishing, mainly due to the increased availability of technology infrastructure driven by ICT developments in the country.

The Ministry of Industrialisation estimated that the total consumption of paper and paperboard in Kenya would grow by approximately 4.4 % annually up to the year 2020, with the demand for newsprint, printing and writing papers, boards, and tissue expected to grow faster than the average, ranging from 4.4% and 4.9%.

In 2017, Kenya exported approximately **32,770 tonnes**, valued at **KES 4.9 billion** (approx. USD 45 million). Imports in the same year were **365,371 tonnes**, valued at **KES 33 billion** (approx. USD 2.2 billion).

METAL AND STEEL

In Kenya, the existing iron ore deposits have not been evaluated to facilitate commercial exploitation, and local steel mills therefore depend on imports of billets for the production of screws, nails, rivets, nuts and bolts, etc. Other production activities depend on imported hot-rolled coils, used for re-rolling into cold rolled coils, which in turn are processed into galvanised sheets, colourcoated sheets, bars, rods, etc.

In 2017, imports of iron and steel amounted to **1.3 million tonnes**, valued at **KES 83,580 million** (approx. USD 775 million). Iron and steel exports during the same year are estimated to have been **108,717 tonnes**, valued at **KES 11.717 billion** (approx. USD 108 million).

Local deposits of iron ore and coal, which constitute the raw materials for the production of iron, have been identified in Kwale, Kitui and Tharaka Nithi. However, these deposits are yet to attract commercial interest.

AUTOMOTIVE

The automotive industry is fast becoming a key economic sector in Kenya, owing its rapid development to a growing middle class in the economy. The industry comprises the following subsectors:

- Auto vehicle production and assembly; passenger cars;
- Light commercial vehicles (LCVs) and pick-ups;
- Heavy commercial vehicles (buses and trucks); motorcycles production and assembly;
- Automotive parts and component manufacture.

There are three main motor vehicle assembly plants in Kenya, with a combined capacity of 34,000 units, and 21 motorcycle assemblers, 6 of which are assembling completely knocked down (CKD) models. The sector has four sub-sectors, namely: assemblers, bus body builders, and motorcycle part and accessory manufacturers.



PHARMACEUTICAL AND MEDICAL EQUIPMENT

Kenya's local pharmaceutical industry plays a key role in the formulation and manufacture of pharmaceutical and healthcare products, although some portion is still imported. The reliance on imported raw materials has been the biggest hindrance to the development of this industry. Kenya's pharmaceutical industry is the largest in the COMESA region, with about 40 enterprises operating within it.

These industries produce over 90% of the products listed under Kenya's essential drug list, though the current overall capacity utilisation is estimated by the enterprises at 40%. Nationally, four companies are close to reaching the highest quality standards defined by the World Health Organisation (WHO).

Notably, this industry relies heavily on imported raw materials. Over 95% of the raw material inputs are imported, which is estimated to be over KES 25 billion (approx. USD 231 million) per annum.

The bulk of these inputs originate from Asian countries, while some are sourced from Europe. Bulk drugs (semi-finished medicaments), which form the major raw material inputs for these industries, are all imported, while locally-sourced raw materials include maize starch, refined sugar and glucose syrup, rectified spirit, ethanol, sodium chloride, and packaging materials.

LEATHER SECTOR AND FOOTWEAR

Leather is one of the most widely-traded commodities globally,

USD 100B

The estimated worth over in a year in the industry.

KES 5B

Value of leather exports from Kenya in 2017 estimated at 24,271 tonnes.

The potential for growth in Kenya's leather industry cannot be understated – it is the second priority sector under the manufacturing umbrella of the Big 4 Agenda.

PLASTIC AND RUBBER

The plastics industry in Kenya is well-developed and produces goods made of polyvinyl chloride (PVC), polyethene, polystyrene, and polypropylene. According to the Kenya National Bureau of Standards (KNBS), over 300 formal establishments are producing various plastics and rubber products in the country. 140 of these are in the plastics industry, and are involved in the production of various plastic articles, such as PVC pipes and fittings, packaging bags, plastics shoes, crates, bottles, floor tiles, household wares and containers.

The plastic industry is estimated to be worth KES 170 billion (approx. USD 1.5 Billion) as of 2017. Raw data from the KNBS shows that the sub-sector has made investments in excess of KES 50 billion in Kenya and relies heavily on imported raw materials.

The industry has significant linkages to other sectors, feeding into about 90% of other locally manufactured products, such as dairy, sugar, bakeries, food and confectionery, as well as into sectors such as agriculture, horticulture, hotels, packaging, health and pharmaceutical industries, retail outlets and general consumers. The impact of the ban on single-use plastic bags was not as significant as many in the manufacturing sector expected.

This has led to the government considering further future environmental measures around reducing the use of non-recyclable plastics. Furthermore, the government has been considering circular-economy policies and legislation that would encourage a shift to recyclable materials, embracing both the environmental benefits and the economic growth potential of the recycling industry.

BUILDING, CONSTRUCTION AND MINING

The Kenyan construction industry is set to grow steadily for the next decade due to an increased number of projects being carried out in the country. This industry is currently on an upward trend, following the rehabilitation and reconstruction of major roads and bridges across the country.

Data from the KNBS indicates that the construction industry grew by 8.6% in 2017, compared to a 9.8% growth in 2016. Data from KNBS indicates that the construction sector contributed 5.5% of the GDP in 2014, due to increased spending on infrastructural development by the government and improved construction activities from the private sector.

According to a report by the National Construction Authority (NCA), there are a total of over 13,700 contractors registered by NCA, with over 22,400 licenses in the above classes of work. Building works have the highest proportion of licensed contractors at 43%, followed by Roads at 34%.



3.4.3 KEY STAKEHOLDERS AND INFLUENCERS

Unilever	Luck Ochieng	Food, home & personal care
British American Tobacco	Crispin Achola	Tobacco products
Crown paints	Dr Rakesh Rao	Paint
Unga Group	Isabella Ochola-Wilson	Human nutrition, animal feed
Bidco Africa	Thiagarajan Ramamurthy	Fast-moving consumer goods
East Africa Breweries Ltd.	Andrew Cowan	Beverages (alcoholic/non-alcoholic)
Chandaria Industries	Darshan Chandaria	Paper & paper products
Procter & Gamble	Adema Sangale	Personal care
Nestle	Ng'entu Njeru	Food and beverages
Delmonte	Mohammad Abu-Ghazaleh	Food and beverages
The Coca-Cola Company	Xavi Selga	Beverages
Brookside Dairy	Muhoho Kenyatta	Dairy
Bamburi Cement	Seddiq Hassani	Cement & concrete
Haco Industries Ltd. Kenya Association of Manufacturers (KAM)	Marry-Ann Musangi Phyllis Wakiaga	Home and personal care
Kenya Private Sector Alliance (KEPSA)	Carole Karuga	
Kenya Agri-Business and Agro-Industry Alliance (KAAA)	Lucy Muchoki	
Kenya National Chamber of Commerce & Industry (KNCCI)	Samuel Matonda	

